

Message Text

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C O N F I D E N T I A L KINGSTON 0427

LIMDIS

E.O. 11652: GDS

TAGS: EMIN, JM

SUBJECT: BAUXITE: REYNOLDS NEGOTIATIONS

REF: STATE 20943

1. CHARGE TALKED WITH RICHARD REYNOLDS AND JOSEPH MCCONNELL OF REYNOLDS METALS CORP. JANUARY 31. THEY SAID THAT PRELIMINARY NEGOTIATIONS BETWEEN THEIR REPRESENTATIVES AND GOJ HAD INDICATED A FINAL SETTLEMENT ALONG THE LINES OF THE KAISER CONTRACT MIGHT BE ACHIEVED THIS WEEK. THEY ARRIVED ON JANUARY 29 AND MET WITH PM MANLEY ON JANUARY 30 AT 4P.M., EXPECTING TO CLEAR UP FINAL POINTS OF DISAGREEMENT AND INITIAL A HEADS OF AGREEMENT JANUARY 31. HOWEVER, MANLEY DROPPED A BOMBSHELL IN THE FIRST MOMENT OF THE MEETING, SAYING HE UNDERSTOOD REYNOLDS WAS PREPARED TO BUILD A 600,000 TON ALUMINA REFINERY IN JAMAICA TO SUPPLY SMELTERS IN VENEZUELA. MCCONNELL SAYS THAT THIS MATTER HAD BEEN TOUCHED ON IN A PERIPHERAL WAY DURING THE PREVIOUS WEEK'S NEGOTIATIONS BUT THAT REYNOLDS HAD NOT UNDERSTOOD THAT IT WAS EVEN BEING ASKED TO CONSIDER THE PROPOSAL AT THIS STAGE, MUCH LESS MAKE A COMMITMENT.

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2. MEETING WITH PM LASTED ABOUT AN HOUR AND ONE-HALF

WITHOUT FORWARDING MATTERS MUCH. IT WAS FOLLOWED BY A MEETING OF SEVERAL HOURS WITH GOJ NEGOTIATORS AND AN ADDITIONAL LATE-NIGHT MEETING WITH MANLEY. MANLEY BEGAN THE SECOND MEETING BY SAYING REYNOLDS COULD HAVE THE SAME REVENUE DEAL AS KAISER PROVIDING THEY, LIKE KAISER, ENTERED INTO A JOINT VENTURE INVESTMENT WITH THE GOJ AND THE VENEZUELAN. OTHERWISE, THE LEVY AGAINST REYNOLDS WOULD BE THAT PROVIDED UNDER THE LAW - 8 PER CENT OF INGOT PRICE AS OF JANUARY 1. PM'S ATTITUDE WAS VERY MUCH "TAKE IT OR LEAVE IT" ACCORDING TO MCCONNELL. HE AND REYNOLDS RESPONDED THAT THE BEST THEY COULD DO AT THIS STAGE WAS STUDY THE PROPOSAL AND RESPOND IN DUE COURSE.

3. MCCONNELL EXPLAINED THAT, ASIDE FROM THE OTHER DIFFICULTIES INVOLVED, REYNOLDS HELD A CONSULTING COMMISSION FROM THE GOVERNMENT OF VENEZUELA TO LOCATE FOR IT THE CHEAPEST SOURCE OF ALUMINA TO SUPPLY VENEZUELA'S ALUMINUM SMELTERS IN THE ORINOCO. WHILE THEY MIGHT WELL CONCLUDE THAT JAMAICA WAS IN FACT THE BEST SOURCE FOR VENEZUELAN SMELTERS WITH OR WITHOUT REYNOLDS PARTICIPATION, IT WOULD CLEARLY BE UNETHICAL FOR REYNOLDS TO GIVE THE VENEZUELAN THAT ADVICE PRIMARILY BECAUSE IT HELPD REYNOLDS IN ITS RELATIONSHIPS WITH THE JAMAICANS. MANLEY TOOK THE POINT, BUT NONETHELESS URGED A COOPERATIVE LOBBYING EFFORT WITH THE VENEZUELAN

TO BRING ABOUT THE JOINT VENTURE. PM SAID THAT IF THE JOINT VENTURE DID MATERIALIZE, REYNOLDS WOULD ENJOY THE SAME BENEFITS AS KAISER IN JAMAICA, WHEREAS IF IT DID NOT THEY WOULD HAVE TO PAY THE FULL LEVY.

4. COMMENT: REYNOLDS AND MCCONNELL WERE DISTURBED BY THIS SUDDEN AND UNEXPECTED DEVELOPMENT. THEY FEEL THE INTRODUCTION OF THE VENEZUELAN JOINT VENTURE AS A SERIOUS PROPOSAL AT THIS STAGE IN THE NEGOTIATIONS HAS AN ELEMENT OF UNFAIRNESS IN IT, AND POINT OUT THAT, NOT LIKE THE GOJ/MEXICO/KAISER DEAL, THEY ARE BEING ASKED TO PROMOTE AN ARRANGEMENT WHEREAS KAISER WAS MERELY ASKED TO JOIN AN ARRANGEMENT THAT ALREADY EXISTED. ETHICAL CONSIDERATIONS ASIDE, THEY OBJECT TO BEING PUT IN A POSITION
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WHERE REYNOLDS' FUTURE TREATMENT IN JAMAICA IS CONTINGENT ON DECISIONS BY THE GOVERNMENT OF VENEZUELA WHICH THEY DO NOT CONTROL. IN ADDITION THEY FEEL STRONGLY THAT THEY MUST HAVE THE SAME REVENUE FORMULA THAT KAISER ENJOYS, APPARENTLY WHETHER OR NOT THEY ARE PREPARED TO ASSUME NEW RESPONSIBILITIES AS KAISER HAS. REYNOLDS AND MCCONNELL RETURNING TO THE U.S. JANUARY 31 TO STUDY THE MATTER FURTHER.

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